

Message Text

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INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

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TAGS: EFIN, EINV, OECD

SUBJECT: COMMITTEE FOR INVISIBLE TRANSACTIONS,
118TH SESSION

REF: (A) TIR/M(76)1, (B) DAF/INV/76.9, (C) DAF/INV/76.7
(D) DAF/INV/76.1, (E) DAF/INV/76.10, (F) DAF/INV/76.8,
(G) OECD 5050, (H) OECD 4589, (I) STATE 43177

1. SUMMARY. AT MEETING FEBRUARY 23-26 INVISIBLES
COMMITTEE (IC) REVISED CONCLUSIONS CONCERNING RETEN-
TION OF INACTIVE RESERVATIONS, COMPLETED THIRD EXAM-
INATION OF ITALIAN RESERVATIONS TO THE CAPITAL MOVE-
MENTS CODE (CMC) RECOMMENDING SUBSTANTIALLY NO CHANGES,
EXAMINED ITALIAN DEROGATION COVERING INVESTMENT IN
SHARES OF CLOSED END INVESTMENT COMPANIES, COMPLETED
INITIAL EXAMINATION OF FINNISH DEROGATION ON SHORT
TERM COMMERCIAL CREDITS, REVIEWED DEVELOPMENTS CONCERN-
ING CONTINUATION OF GREEK DEROGATIONS TO CMC AND CURRENT
INVISIBLE OPERATIONS CODE (CIC), AND AGREED THAT NEXT
SPECIAL SESSION ON INWARD DIRECT INVESTMENT WOULD BE
HELD JUNE 29, 1976. END SUMMARY.

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2. INACTIVE RESERVATIONS: ANNEX TO REF A CONTAINS

DRAFT IC CONCLUSIONS CONCERNING USE OF INACTIVE RESERVATIONS TO CMC AND CIC. AT DEC., 1975, MEETING IC HAD DISCUSSED QUESTION OF WHAT TO DO WHEN COUNTRIES INSIST ON MAINTAINING SO-CALLED PRECAUTIONARY RESERVATIONS EVEN WHEN RELEVANT RESTRICTIONS WERE NOT BEING APPLIED. CONSENSUS WAS THAT WORD PRECAUTIONARY WAS MISLEADING, AND THAT IT WOULD BE PREFERABLE TO REFER TO THIS TYPE OF RESERVATION AS BEING INACTIVE. SEVERAL MEMBERS SUGGESTED THAT REASON FOR ALLOWING RETENTION OF INACTIVE RESERVATIONS (PARA 11 REF A) SHOULD NOT BE THAT IC WOULD BE OVERBURDENED, BUT THAT SUCH MAINTENANCE COULD ONLY BE ALLOWED WHEN IT WAS CLEAR THAT THE APPLICATION OF THE RESTRICTIONS WERE DESTINED TO BE ONLY TEMPORARY. SCANDANAVIAN EXPERTS CONTINUED TO STRESS IDEA THAT IT WAS ONLY PRUDENT FOR SMALL COUNTRIES TO MAINTAIN RESERVATIONS EVEN DURING PERIODS IN WHICH RESTRICTIONS WERE NOT ENFORCED. US EXPERT OBJECTED TO IDEA THAT MAINTENANCE OF INACTIVE RESERVATIONS SHOULD AT ANY TIME BE CONSIDERED APPROPRIATE (SEE PARA 11) PREFERRING THAT COUNTRIES REMOVE RESERVATIONS WHEN RESTRICTIONS NOT NEEDED, REPLACING THEM WITH DEROGATIONS WHENEVER CONDITIONS WARRANTED. MAJORITY IC AGREED THAT RETENTION INACTIVE RESERVATIONS SHOULD BE CONSIDERED JUSTIFIED ONLY IN UNUSUAL CIRCUMSTANCES.

3. CHANGES IN COUNTRY REGULATIONS: US MEMBER ANSWERED SECRETARIAT QUESTIONS CONCERNING NEW PENNSYLVANIA TAKEOVER LAW (REF G) INDICATING THAT IT WAS MAINLY DESIGNED TO ELICIT ADVANCE INFORMATION CONCERNING TAKEOVERS. LAW WOULD NOT CONFLICT WITH CLEAR US FEDERAL REQUIREMENTS THIS MATTER WHICH ARE ALREADY KNOWN TO IC. FRENCH EXPERT DESCRIBED CHANGE IN REGS ON MEDIUM TERM BORROWING ABROAD WHICH WILL ALLOW DOMESTIC AND FOREIGN FIRMS IN FRANCE TO INCREASE THEIR MEDIUM TERM FOREIGN BORROWING. SPANISH EXPERT INDICATED NUMBER OF MEASURES WILL BE FORTHCOMING IN ORDER TO REINFORCE RECENT DEVALUATION OF PESETA. HE EMPHASIZED THAT GOAL OF COMPLETE FREEDOM FOR FOREIGN INVESTMENT COMING INTO SPAIN WOULD BE OBTAINED.

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4. THIRD EXAMINATION ITALIAN RESERVATIONS TO CMC: IC EXAMINED REF C AND QUESTIONED ITALIAN IC EXPERT, (IN ABSENCE OF REPS FROM ITALIAN CENTRAL BANK AND FINANCE MINISTRY). ITALIAN IC EXPERT MADE STRONG PLEA FOR UNDERSTANDING OF NEED TO MAINTAIN ALL EXISTING RESTRICTIONS IN FACE OF PRESENT SERIOUS INTERNATIONAL ECONOMIC SITUATION ITALIAN ECONOMY. SEVERAL IC

MEMBERS NOTED THAT ALSO AT LAST EXAMINATION (IN 1967)
WHEN ITALIAN BALANCE OF PAYMENTS HAD ACTUALLY BEEN
IN SURPLUS, ITALIANS HAD BEEN UNWILLING TO MAKE
SIGNIFICANT MODIFICATIONS IN THEIR CONTROLS. SWISS
MEMBER SUGGESTED THAT CONTINUED HEAVY HANDED REGULA-
TIONS ON INTERNATIONAL TRANSACTIONS PROBABLY ONE OF

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THE FACTORS WHICH, OVER TIME, MAKES IT DIFFICULT FOR
POSITIVE ATTITUDE TO DEVELOP ON PART OF HOLDERS OF
FUNDS IN ITALY. LENGTHY EXAMINATION ITALIAN EXPERT
OBTAINED NO NEW INFORMATION CONCERNING ACTUAL APPLI-
CATION OF RESTRICTIONS OR INTENTIONS OF AUTHORITIES
TOWARD MAKING FURTHER MODIFICATIONS IN CONTROLS. IC
SUGGESTED NUMBER OF MINOR CHANGES IN SEVERAL RESER-
VATIONS TO BRING THEM INTO LINE WITH PRESENT REGULA-
TIONS. ITALIAN EXPERT AGREED TO DISCUSS PROPOSED
MODIFICATIONS IN RESERVATIONS (REF C, PAGE 6-7)
WITH HIS AUTHORITIES IN ATTEMPT TO MAKE RESERVATIONS
MORE CLOSELY MATCH DE FACTO APPLICATION OF PRESENT
EXCHANGE CONTROLS. SEVERAL MEMBERS ASKED SECRETARIAT

TO INCLUDE, IN FINAL REPORT, SOME EXAMINATION OF THE EFFECTIVENESS OF ITALIAN RESTRICTIONS, ARGUING THAT IT IS CLEAR THAT FUNDS FLOW OUT OF ITALY IN MASSIVE AMOUNTS REGARDLESS OF THE EXISTENCE OF THE RESTRICTIVE REGULATIONS. THE REGULATIONS ARE INEFFECTIVE. THEIR MAIN IMPACT IS IN MAINTAINING NEED FOR COSTLY SURVEILLANCE SYSTEM WHICH TENDS TO DISTORT ECONOMIC ACTIVITIES, PROBABLY TO THE DETRIMENT OF UNCLASSIFIED

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THE ITALIAN ECONOMY IN THE LONGER RUN. SCANDANAVIAN AND UK EXPERTS ARGUED THAT EVIDENCE ON EFFECT OF CONTROLS IS NOT CLEAR, AND PREFERRED TO AVOID ANY ATTEMPT TO JUDGE DESIRABILITY OF CONTROLS. IC AGREED THAT IT WOULD NOT PRESS ITALY TO MAKE ANY SUBSTANTIVE CHANGES IN REGULATIONS AT THE PRESENT TIME.

5. CONTINUED ITALIAN DEROGATION ON CLOSED END FUNDS: NEW SECTION OF CMC ON OPEN-END COLLECTIVE INVESTMENT SECURITIES (MUTUAL FUNDS) WAS ADOPTED BY OECD IN 1973, AT WHICH TIME ITALY LODGED A RESERVATION THIS ITEM. HOWEVER, SINCE ITALY HAD NO GENERAL RESERVATION ON INVESTMENT FUNDS, IT THEREFORE FOUND IT NECESSARY TO MAINTAIN DEROGATION TO COVER CLOSED END FUNDS. ITALIAN REGULATIONS MAKE NO DISTINCTION BETWEEN OPEN AND CLOSED FUNDS. IC HAS ARGUED AT LENGTH THAT ITALY SHOULD REMOVE ITS DEROGATION ON QUOTED CLOSED END FUNDS, SUGGESTING THAT IN ANY EVENT SUCH FUNDS ARE RELATIVELY SMALL AND COULD NOT LEAD TO ANY SIGNIFICANT INCREASE IN CAPITAL OUTFLOWS FROM ITALY. AT PRESENT EXAMINATION, ITALIAN EXPERT EXHIBITED DISTINCT MISUNDERSTANDING OF DIFFERENCE BETWEEN OPEN AND CLOSED END FUNDS, SUGGESTING REPEATEDLY THAT THERE WAS NO EASY WAY TO DISTINGUISH BETWEEN THEM IN PRACTICE OR LAW, AND THAT ANY CHANGE IN TREATMENT WOULD HAVE TO AWAIT NEW ITALIAN LAW ON THE SUBJECT. SUCH LAW HAD BEEN PROPOSED SOME YEARS AGO BUT NEVER ENACTED. ITALIAN EXPERT ACKNOWLEDGED THAT REGULATIONS THIS QUESTION WERE MAINLY ADMINISTRATIVE IN NATURE, BUT FELT THAT THEY COULD NOT BE CHANGED PENDING SOME CLARIFICATION OF LAW THIS SUBJECT. OTHER MEMBERS ARGUED REVERSE, AND ITALIAN EXPERT AGREED TO DISCUSS POSSIBILITY OF ADMINISTRATIVE CHANGES WITH HIS AUTHORITIES. IC URGED SECRETARIAT AND ITALIAN EXPERT TO CLEARLY POINT OUT TO ITALIAN OFFICIALS PRACTICAL AND LEGAL DIFFERENCES BETWEEN OPEN AND CLOSED END FUNDS, AND TO WORK WITH THEM IN DESIGNING SOME CHANGE IN ITALIAN ADMINISTRATIVE PRACTICE RE CLOSED FUNDS WHICH WOULD PERMIT REMOVAL OF PRESENT DEROGATION.

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6. EXAMINATIONS OF FINNISH DEROGATION ON COMMERCIAL CREDITS: FINLAND INTRODUCED RESTRICTIONS ON SHORT TERM COMMERCIAL CREDITS GRANTED BY NON-RESIDENTS TO RESIDENTS IN JUNE, 1973. PRESENT EXAMINATION REVEALED THAT FINLAND WISHES TO MAINTAIN THESE RESTRICTIONS AND THE RELATED ARTICLE 7 (B) DEROGATION TO THE CMC FOR AN AS YET UNDETERMINED LENGTH OF TIME. MAIN RATIONALE GIVEN BY FINNISH AUTHORITIES IS THAT CONTROLS OVER THESE CREDITS ARE NECESSARY IN ORDER TO MAINTAIN MONETARY POLICY STANCE DESIRED BY CENTRAL BANK. IT BECAME CLEAR DURING DISCUSSION THAT AUTHORIZATIONS FOR SUCH CREDITS ARE GEARED HEAVILY TOWARD EXTENT TO WHICH EXPORT ORIENTED INDUSTRIES NEED CREDITS FOR IMPORTED GOODS. CREDITS RELATED TO DURABLE CONSUMER GOODS ARE ALMOST NEVER AUTHORIZED. FINNISH EXPERTS INDICATED THAT ALTHOUGH IMPORT DEPOSIT SCHEME IS SCHEDULED TO BE TERMINATED IN ON MARCH 23, 1976, IT IS NOT YET CLEAR WHEN THE RESTRICTION ON SHORT TERM COMMERCIAL CREDITS WILL BE LIFTED. WHILE THE LAW AUTHORIZING SUCH RESTRICTIONS EXPIRES AT THE END OF 1976, AUTHORITIES HAVE NOT YET DECIDED WHETHER TO ASK FOR AN EXTENSION. WHILE MOST MEMBERS

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OF IC ARGUED THAT THERE NO LONGER SEEMED TO BE PRESSING
NEED FOR CONTINUATION THESE RESTRICTIONS, MAJORITY
OF IC DECIDED NOT TO PUSH FINLAND TO REMOVE RESTRIC-
TIONS AT THIS TIME. HOWEVER, IT WAS HOPED THAT THE
RESTRICTIONS COULD BE REMOVED BEFORE THE END OF 1976.

7. GREEK DEROGATIONS TO CMC AND CIC: IN BRIEF
DISCUSSION OF REF D, IC AGREED TO ACCEPT DOCUMENT,
WITH MINOR AMENDMENT IN PARA 12, TO INDICATE THAT
ONLY ONE SPECIAL WORKING GROUP, RATHER THAN TWO,
WILL RECONSIDER ALL REMAINING RESTRICTIONS ON CUR-
RENT INVISIBLES AND CAPITAL MOVEMENTS. IC AGREED
TO SUSPEND ITS CONSIDERATION OF THE GREEK INVOCATION
OF DEROGATION CLAUSES TEMPORARILY AND NOT TO REPORT
TO OECD COUNCIL PENDING IC RECEIPT AND ANALYSIS OF
PROGRESS REPORT ON GREEK SPECIAL WORKING GROUP WHICH
WILL BE SUBMITTED TO IC BY GREEK AUTHORITIES BEFORE
JULY, 1976.

8. SPECIAL SESSION ON DIRECT INVESTMENT: IC AGREED
TO HOLD 1976 SPECIAL SESSION ON INWARD DIRECT INVEST-
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MENT (REFTELS H AND I) ON MIDDLE DAY (JUNE 29) OF ITS
REGULAR JUNE 28-30 MEETING. TERMS OF REFERENCE OF
MEETING WILL BE AS INDICATED IN REF F.
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